

1.1 Scarcity and choice

1 Microeconomics

The basic economic problem

Can you explain what is meant by economic goods and free goods, and distinguish between them?	☐	☐	☐
Can you explain what is meant by the basic economic problem?	☐	☐	☐
Can you evaluate the implications of the basic economic problem?	☐	☐	☐
Can you explain what is meant by positive and normative statements and distinguish between them?	☐	☐	☐
Can you explain what is meant by needs and wants and distinguish between them?	☐	☐	☐
Can you explain what is meant by scarcity?	☐	☐	☐
Can you evaluate, using examples, the problem of scarcity and the requirement to make choices?	☐	☐	☐
Can you explain, using examples, the impact of sustainability on scarcity and choice?	☐	☐	☐
Can you explain the role of the economic agents: government, firms and households?	☐	☐	☐
Can you explain the nature and role of the factors of production (land, labour, capital, enterprise) as economic resources?	☐	☐	☐
Can you explain the rewards to the factors of production (rent, wages, interest, profit)?	☐	☐	☐

The market economy

Can you evaluate the strengths and weaknesses of the market economy?	☐	☐	☐
Can you evaluate the role of government within the market economy?	☐	☐	☐

The concept of the margin

Can you explain what is meant by the concept of the margin?	☐	☐	☐
Can you calculate the appropriate marginal value from a given set of data?	☐	☐	☐
Can you evaluate the extent to which the marginal concept is useful to economic agents in decision making?	☐	☐	☐
Can you evaluate the concept of rationality as a way of understanding the behaviour of economic agents?	☐	☐	☐

Opportunity cost

Can you explain the concept of opportunity cost?	☐	☐	☐
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Can you explain what is meant by a trade-off?



Can you explain what is meant by a production possibility curve/frontier (PPC/F)?



Can you explain the factors that cause a PPC/F to shift?



Can you explain how a PPC/F can illustrate scarcity, choice, opportunity cost and productive efficiency?



Can you evaluate the usefulness of the concept of opportunity cost?



Specialisation and trade

Can you explain what is meant by specialisation and the division of labour?



Can you evaluate the role of specialisation and the division of labour in addressing the problem of scarcity?



Can you explain how specialisation encourages trade and exchange in an economy?



Can you explain how money facilitates trade and exchange compared with barter systems?



1.2a

How competitive markets work: allocation, supply and demand

Allocation of resources

Can you explain what is meant by resource allocation?



Can you explain the impact of incentives on the behaviour of economic agents and on resource allocation?



Can you evaluate the effectiveness of incentives on the behaviour of economic agents and on resource allocation?



Can you explain how market, planned and mixed economies allocate resources?



Can you evaluate the advantages and disadvantages of different types of economy in allocating resources?



The objectives of economic agents

Can you explain, using examples, what is meant by maximisation?



Can you identify the possible objectives of economic agents?



Can you evaluate the different objectives of the economic agents in an economy?



Demand

Can you explain what is meant by a market and by sub-markets?	☐	☐	☐
Can you explain the relationship between individual demand and market demand?	☐	☐	☐
Can you explain what is meant by derived, joint, composite and competitive demand?	☐	☐	☐
Can you explain the relationship between price and quantity demanded using marginal utility theory and the income and substitution effects?	☐	☐	☐
Can you explain, with a diagram, the difference between a movement along the demand curve (extension/contraction) and a shift of the demand curve?	☐	☐	☐
Can you explain the factors that cause a shift of the demand curve?	☐	☐	☐
Can you explain, with a diagram, what is meant by consumer surplus?	☐	☐	☐
Can you explain and calculate how changes in price affect consumer surplus?	☐	☐	☐
Can you evaluate the impact of changes in price on consumer surplus?	☐	☐	☐

Supply

Can you explain the relationship between individual supply and market supply?	☐	☐	☐
Can you explain what is meant by joint, composite and competitive supply?	☐	☐	☐
Can you explain the relationship between price and quantity supplied?	☐	☐	☐
Can you explain, with a diagram, the difference between a movement along the supply curve (extension/contraction) and a shift of the supply curve?	☐	☐	☐
Can you explain the factors that cause a shift of the supply curve?	☐	☐	☐
Can you explain, with a diagram, what is meant by producer surplus?	☐	☐	☐
Can you explain and calculate how changes in price affect producer surplus?	☐	☐	☐
Can you evaluate the impact of changes in price on producer surplus?	☐	☐	☐

The interaction of markets

Can you explain, with a diagram, how demand and supply interact to produce market equilibrium in product markets?	☐	☐	☐
Can you evaluate the impact of changes in demand and/or supply in one market on a related market(s)?	☐	☐	☐
Can you explain the causes and consequences of disequilibrium in a market?	☐	☐	☐
Can you explain, with a diagram, how changes in the factors affecting supply and demand affect equilibrium price and quantity?	☐	☐	☐
Can you explain, with a diagram, why the price and output of some goods and services may be volatile?	☐	☐	☐

Can you evaluate, with a diagram, the usefulness of demand and supply in analysing markets such as commodities, agriculture and housing?



Can you explain the assumptions underlying the model of supply and demand?



Can you explain how the model of supply and demand operates using a range of techniques?



Can you analyse the supply and demand model to describe and predict economic behaviour?



Can you evaluate the usefulness and limitations of the supply and demand model in explaining real world phenomena?



1.2b

How competitive markets work: elasticity and efficiency

Price elasticity of demand

Can you explain what is meant by elasticity?



Can you explain what is meant by price elasticity of demand (PED)?



Can you calculate PED using point elasticity?



Can you explain, with diagrams, the different values of PED?



Can you explain why PED varies along a straight line demand curve?



Can you explain, with a diagram, the relationship between PED and a firm's total revenue?



Can you evaluate the factors that determine the degree of PED?



Can you evaluate the effect of PED on the impact of an indirect tax and of a subsidy?



Income and cross elasticity of demand

Can you explain what is meant by income elasticity of demand (YED)?



Can you calculate YED?



Can you evaluate the significance of the numerical value and sign of YED?



Can you explain the difference in YED of inferior, normal and superior goods?



Can you explain what is meant by cross elasticity of demand (XED)?



Can you calculate XED?



Can you evaluate the significance of the numerical value and sign of XED?



Can you explain the difference in XED of substitute, complementary and unrelated goods?



Price elasticity of supply

Can you explain what is meant by price elasticity of supply (PES)?	☐	☐	☐
Can you calculate PES using point elasticity?	☐	☐	☐
Can you explain, with diagrams, the different values of PES?	☐	☐	☐
Can you evaluate the factors that determine the degree of PES?	☐	☐	☐
Can you evaluate the usefulness and significance of PED, YED, XED and PES to all economic agents?	☐	☐	☐

Productive and allocative efficiency

Can you explain what is meant by productive efficiency?	☐	☐	☐
Can you explain what is meant by allocative efficiency?	☐	☐	☐
Can you explain what is meant by economic efficiency?	☐	☐	☐
Can you distinguish between static and dynamic efficiency?	☐	☐	☐
Can you explain what is meant by x-inefficiency?	☐	☐	☐
Can you explain the conditions under which productive and allocative efficiency can be achieved?	☐	☐	☐
Can you evaluate whether other market structures may not always lead to productive and allocative efficiency?	☐	☐	☐
Can you evaluate the importance of productive, allocative and dynamic efficiency?	☐	☐	☐

1.3a**Competition and market power: objectives, costs and revenue****Business objectives**

Can you evaluate the assumptions underlying profit maximisation as a business objective?	☐	☐	☐
Can you evaluate the relevance of profit maximisation to businesses?	☐	☐	☐
Can you evaluate alternative maximising objectives to profit maximisation, such as sales revenue maximisation and sales volume maximisation?	☐	☐	☐
Can you evaluate non-maximising objectives such as profit satisficing, social welfare and corporate social responsibility?	☐	☐	☐
Can you explain the principal-agent problem?	☐	☐	☐
Can you evaluate the factors that influence a firm's choice of objectives?	☐	☐	☐

Costs and economies of scale

Can you distinguish between the short run and the long run in terms of fixed and variable factors?



Can you explain the law of diminishing returns?



Can you evaluate the significance of the law of diminishing returns?



Can you explain what is meant by TC, TFC, TVC, AC (ATC), AFC, AVC and MC?



Can you calculate TC, TFC, TVC, AC (ATC), AFC, AVC and MC?



Can you explain, with diagrams, the relationship between costs and output?



Can you explain the relationship between short run AC and long run AC?



Can you explain what is meant by internal and external economies and diseconomies of scale?



Can you evaluate the causes of internal and external economies and diseconomies of scale?



Can you evaluate the significance of economies and diseconomies of scale to businesses and other economic agents?



Can you explain what is meant by the minimum efficient scale (MES)?



Can you evaluate the importance of MES?



Revenue and profit

Can you explain what is meant by total revenue (TR), average revenue (AR) and marginal revenue (MR)?



Can you calculate TR, AR and MR?



Can you calculate profit or loss?



Can you explain, with diagrams, the relationship between price, revenue, PED and output?



Can you explain and distinguish between accounting profit and economic profit?



Can you explain what is meant by supernormal (abnormal) profit, normal profit and loss?



Can you explain, using calculations and/or diagrams, the relationship between supernormal profit, normal profit, loss, TR and TC?



Can you explain, using diagrams, why profits are maximised (losses minimised) where $MC = MR$?



1.3b

Competition and market power: perfect competition and monopoly

Perfect competition

Can you explain the characteristics of perfect competition?	☐ ☐ ☐
Can you explain, with a diagram, why a firm in perfect competition is a price taker?	☐ ☐ ☐
Can you explain, with a diagram, the long run equilibrium price and output for a firm in perfect competition?	☐ ☐ ☐
Can you explain, with a diagram, why a perfectly competitive firm can make supernormal profits or losses in the short run?	☐ ☐ ☐
Can you explain, with a diagram, why a perfectly competitive firm can only earn normal profits in the long run?	☐ ☐ ☐
Can you explain, with a diagram, why a firm in perfect competition will be allocatively efficient?	☐ ☐ ☐
Can you explain, with a diagram, why a firm in perfect competition will be productively efficient in the long run?	☐ ☐ ☐
Can you evaluate, with a diagram, the usefulness of perfect competition theory?	☐ ☐ ☐

Monopoly and monopsony

Can you explain the characteristics of monopoly?	☐ ☐ ☐
Can you explain what is meant by monopsony?	☐ ☐ ☐
Can you explain, with a diagram, a natural monopoly?	☐ ☐ ☐
Can you evaluate the impact of the existence of a natural monopoly?	☐ ☐ ☐
Can you explain, with a diagram, why a monopolist is a price maker?	☐ ☐ ☐
Can you explain, with a diagram, the equilibrium price and output for a profit maximising monopolist?	☐ ☐ ☐
Can you explain, with a diagram, why a monopolist can make supernormal profits in both the short run and the long run?	☐ ☐ ☐
Can you explain, with a diagram, why a profit maximising monopolist may be neither allocatively nor productively efficient?	☐ ☐ ☐
Can you explain, with a diagram, what is meant by price discrimination by a business with monopoly power?	☐ ☐ ☐
Can you evaluate, with a diagram, the advantages and disadvantages of monopoly power?	☐ ☐ ☐

Monopolistic competition

Can you explain the characteristics of monopolistic competition?	☐ ☐ ☐
Can you explain, with a diagram, the equilibrium price and output for a business in monopolistic competition in the short run and the long run?	☐ ☐ ☐
Can you explain, with a diagram, why a business in monopolistic competition can make supernormal profits or losses in the short run but only normal profits in the long run?	☐ ☐ ☐
Can you evaluate, with a diagram, the advantages and disadvantages of monopolistic competition?	☐ ☐ ☐

1.3c

Competition and market power: oligopoly, contestability and growth

Oligopoly

Can you explain the characteristics of oligopoly?	☐ ☐ ☐
Can you explain what is meant by non-price competition?	☐ ☐ ☐
Can you explain the significance of interdependence in oligopoly, using game theory and the kinked demand curve?	☐ ☐ ☐
Can you explain the significance of types of collusion (overt, tacit, cartels) in oligopoly markets?	☐ ☐ ☐
Can you explain the significance of product differentiation in oligopoly markets?	☐ ☐ ☐
Can you evaluate, with a diagram, the advantages and disadvantages of oligopoly markets?	☐ ☐ ☐
Can you explain and calculate concentration ratios?	☐ ☐ ☐
Can you explain barriers to entry and exit?	☐ ☐ ☐

Comparing market structures and contestability

Can you use diagrams to compare and contrast the outcomes of perfect competition, monopolistic competition, oligopoly and monopoly?	☐ ☐ ☐
Can you evaluate, using examples, the extent to which theory of the firm explains the behaviour and performance of firms?	☐ ☐ ☐
Can you explain the characteristics of a perfectly contestable market?	☐ ☐ ☐
Can you explain why a business in a perfectly contestable market will be both allocatively and productively efficient?	☐ ☐ ☐
Can you evaluate, with a diagram, the advantages and disadvantages of a perfectly contestable market?	☐ ☐ ☐

Can you evaluate the contribution of contestable market theory to analysing the behaviour and performance of firms?



Growth, integration and regulation of firms

Can you explain what is meant by horizontal, vertical and conglomerate integration/merger?



Can you evaluate the advantages and disadvantages of integration to economic agents?



Can you evaluate the factors that influence the growth of firms?



Can you evaluate the impact of regulation and ownership on the behaviour of firms?



Can you evaluate the impact of competition policy on the behaviour of firms?



Can you evaluate the extent to which firms are interdependent?



1.4a

Labour market: wage determination

Demand for labour

Can you explain the concept of the derived demand for labour?



Can you explain the concept of sub-markets in the market for labour?



Can you explain the difference between nominal (money) wages and real wages?



Can you explain the factors affecting the demand for labour in an industry or economy?



Can you explain the factors affecting the wage elasticity of demand for labour?



Can you explain what is meant by productivity?



Can you explain what is meant by unit labour costs?



Can you evaluate the implications of variations in unit labour costs and productivity between firms and countries?



Can you explain what is meant by human capital?



Can you evaluate the impact of changes in wages and unit labour costs on firms?



Supply of labour

Can you explain the monetary and non-monetary factors affecting the supply of labour to an industry or economy?



Can you explain the factors affecting the wage elasticity of supply of labour?



Can you explain the difference between the short run and long run supply of labour?



Can you evaluate, with a diagram, the substitution and income effects on an individual's supply of labour (backward-bending supply curve)?



Can you explain, with a diagram, the difference between economic rent and transfer earnings?



Can you explain the determinants of economic rent and transfer earnings?



Wage determination in different markets

Can you explain, with a diagram, how wages are determined in a highly competitive labour market?



Can you explain, with a diagram, marginal revenue product (MRP) theory in relation to employment and wage determination?



Can you evaluate, with a diagram, the impact of trade union activity on labour markets?



Can you evaluate, with a diagram, the impact of a monopsonist employer on a labour market?



Can you evaluate, with a diagram, the impact of a bilateral monopoly on a labour market?



Can you explain the reasons why wage differentials exist in an economy?



Can you evaluate the usefulness of wage determination theories in explaining wages in different regional, national and international markets?



1.4b

Labour market: issues, themes and government intervention

Labour market issues and themes

Can you explain what is meant by the labour force?



Can you explain what is meant by the working population?



Can you explain what is meant by the dependency ratio, the participation rate and the replacement ratio?



Can you evaluate, with a diagram, the impact of imposing or changing maximum wages, minimum wages and the living wage?



Can you evaluate the wider impact of imposing or changing maximum wages, minimum wages and the living wage?



Can you evaluate the impact of changes in labour market flexibility?



Can you evaluate the impact of changes in the occupational and geographical mobility of labour?



Can you evaluate the impact of individual bargaining, collective bargaining, productivity bargaining and trade union activity on labour markets?



Can you evaluate the impact on labour markets of migration, discrimination, demographic changes and incentives?



Can you evaluate the significance of informal labour markets?



Can you evaluate the effectiveness of government policies to reduce labour immobility and increase labour flexibility?



Government intervention

Can you explain what is meant by income inequality?



Can you explain what is meant by wealth inequality?



Can you distinguish between income inequality and wealth inequality?



Can you evaluate the impact of introducing and changing government intervention in the labour market, such as pensions, welfare benefits and wage legislation?



1.5a

Market failure: externalities, information and public goods

Market failure

Can you explain what is meant by market failure?



Can you explain the implications of market failure for efficiency and inefficiency?



Can you explain market failure in terms of over or under consumption/production and resource allocation?



Externalities

Can you explain, with a diagram, positive and negative externalities (external benefits and costs) of consumption?



Can you explain, with a diagram, positive and negative externalities (external benefits and costs) of production?



Can you explain what is meant by MSC, MEC, MPC, MSB, MEB and MPB?



Can you explain, with a diagram, why negative externalities of consumption cause market failure?



Can you explain, with a diagram, why negative externalities of production cause market failure?



Can you explain, with a diagram, why positive externalities of consumption cause market failure?



Can you explain, with a diagram, why positive externalities of production cause market failure?



Can you evaluate how externalities affect markets such as education, health, transport and the environment?



Market power and information asymmetries

Can you explain what is meant by information failure?



Can you explain what is meant by asymmetric information and moral hazard?



Can you explain, with a diagram, how information failure causes market failure?



Can you explain what is meant by merit and demerit goods?



Can you explain merit and demerit goods in terms of information failures?



Can you evaluate the significance of merit and demerit goods?



Public goods

Can you explain and distinguish between a private good, a public good and a quasi-public good?



Can you explain the characteristics of a public good: non-excludability, non-rivalry (non-diminishability), non-rejectability and zero marginal cost?



Can you explain why public goods result in the free rider problem?



Can you explain why the existence of public goods may result in market failure?



Can you evaluate the significance of public goods?



Can you evaluate the role of government in the provision of a public good?



Inequity

Can you explain the causes of inequality of income and wealth?



Can you evaluate the significance of inequality of income and wealth?



Can you explain why there may be differences in access to resources?



Can you evaluate the significance of differences in access to resources?



1.5b

Market failure: environment and government intervention

Environment

Can you explain the three functions of the environment: provider of resources, provider of amenities and absorber of waste?



Can you explain, with a diagram, how externalities from production affect the environment and cause market failure?



Can you explain, with a diagram, how externalities from consumption affect the environment and cause market failure?



Can you explain, with a diagram, the environmental Kuznets curve?



Can you evaluate whether economic growth will cause environmental degradation/resource depletion and limit sustainable development?



Can you evaluate the effectiveness of local, national, regional and global policies to reduce environmental degradation, such as indirect taxes, subsidies, regulation and environmental standards, tradable pollution permits, information provision, government expenditure and public-private partnerships?



Alternative methods of government intervention

Can you explain why governments intervene in markets?



Can you explain, with diagrams, how taxation and subsidies can correct or reduce market failure and inequity?



Can you explain how government expenditure/state provision can correct or reduce market failure and inequity?



Can you explain, with a diagram, how buffer stock systems work?



Can you explain, with diagrams, how maximum and minimum price controls work?



Can you explain how public/private partnerships, legislation and regulation can correct market failure?



Can you explain, with a diagram, how tradable pollution permits work?



Can you explain how information provision and competition policy can correct market failure?



Can you evaluate the effectiveness of different types of government intervention in correcting or reducing market failure and inequity?



Can you explain what is meant by cost benefit analysis (CBA)?



Can you explain how CBA can be used to assess infrastructure projects in education, the environment, health and transport?



Can you evaluate the value of CBA in helping governments make decisions where there is market failure?



Government failure

Can you explain what is meant by government failure?



Can you explain what may cause government failure?



Can you evaluate the consequences of government failure?



Economic structure and growth

Can you explain how an economy's structure is described by its primary, secondary and tertiary sectors?	☐	☐	☐
Can you explain what is meant by economic growth?	☐	☐	☐
Can you explain what is meant by economic development?	☐	☐	☐
Can you explain what is meant by sustainable development?	☐	☐	☐
Can you evaluate the relationship between economic growth, changes in economic structure and sustainable development?	☐	☐	☐
Can you explain sustained and sustainable economic growth as macroeconomic policy objectives?	☐	☐	☐
Can you explain what is meant by a recession?	☐	☐	☐

Measuring GDP and growth

Can you explain what is meant by real GDP and nominal (money) GDP, and distinguish between them?	☐	☐	☐
Can you compare changes in real and nominal GDP over time?	☐	☐	☐
Can you explain why GDP and economic growth are measured?	☐	☐	☐
Can you evaluate the difficulties of measuring economic growth and GDP?	☐	☐	☐
Can you calculate real and nominal economic growth rates?	☐	☐	☐
Can you calculate GDP per capita?	☐	☐	☐

Causes and effects of growth

Can you evaluate the causes of economic growth in the short run and the long run?	☐	☐	☐
Can you explain, using a PPF/C and an AD/AS diagram, the difference between short run and long run growth?	☐	☐	☐
Can you evaluate the costs and benefits of economic growth?	☐	☐	☐
Can you evaluate the consequences of a recession?	☐	☐	☐
Can you evaluate the relationship between economic growth and economic development?	☐	☐	☐
Can you evaluate the relationship between economic growth and sustainable development?	☐	☐	☐

Development, welfare and international institutions

Can you explain how Overseas Development Assistance (ODA) and trade can promote growth and development?



Can you evaluate the usefulness of GDP, the HDI, the Genuine Progress Indicator and other social and cultural indicators?



Can you evaluate the relationship between economic growth and happiness, including the Easterlin Paradox and the ONS Measuring National Well-being programme?



Can you explain the role of the IMF, World Bank and WTO in promoting growth and development?



Can you evaluate the effectiveness of the IMF, World Bank and WTO in promoting growth and development?


2.1b

Policy objectives: employment, inflation and distribution

Unemployment/Employment

Can you explain what is meant by unemployment and employment?



Can you explain full employment as a macroeconomic policy objective?



Can you distinguish between the Labour Force Survey and claimant count measures of unemployment?



Can you explain the natural (non-accelerating inflation) rate of unemployment?



Can you evaluate the difficulties of measuring unemployment accurately?



Can you evaluate the causes of unemployment?



Can you evaluate the consequences of unemployment?



Can you evaluate the causes and consequences of changes in the pattern of employment?



Can you evaluate the effects of full employment?



Inflation

Can you explain what is meant by inflation?



Can you explain low and stable inflation as a macroeconomic policy objective?



Can you explain what is meant by deflation, disinflation and hyperinflation?



Can you explain how the UK's current official measure of inflation (CPI) is constructed?



Can you calculate the inflation rate using index numbers?



Can you calculate real values using index numbers?



Can you evaluate the advantages and disadvantages of indices such as the CPI and RPI for measuring inflation?



Can you evaluate the causes of inflation (demand-pull, cost-push, monetary)?



Can you evaluate the consequences of inflation?



Can you evaluate the causes of deflation?



Can you evaluate the consequences of deflation?



Income distribution and welfare

Can you distinguish between income distribution and wealth distribution?



Can you distinguish between income inequality and wealth inequality?



Can you explain why a more even income distribution may be an important macroeconomic policy objective?



Can you explain how income and wealth are distributed using a Lorenz curve diagram?



Can you explain and interpret inequality data, including Gini coefficients and relevant quantiles?



Can you explain the causes of income and wealth inequality?



Can you explain and distinguish between absolute and relative poverty?



Can you evaluate the causes of poverty and inequality?



Can you evaluate the consequences of poverty and inequality?



Trends in macroeconomic indicators

Can you explain the key trends in UK macroeconomic performance over the last 20 years?



Can you evaluate the current performance of the UK economy compared with developed, emerging and developing economies?



2.2a

Aggregate demand and aggregate supply: the AD/AS model

Circular flow of income

Can you explain the income, output and expenditure methods of measuring national income?



Can you explain the circular flow of income?



Can you explain injections and leakages (withdrawals) in the circular flow?	☐	☐	☐
Can you distinguish between physical and monetary flows?	☐	☐	☐
Can you explain the average and marginal propensities to consume and to save?	☐	☐	☐
Can you explain the marginal propensity to withdraw (to save, to pay tax and to import)?	☐	☐	☐
Can you calculate the average and marginal propensities to consume, save and withdraw?	☐	☐	☐

Aggregate demand (AD)

Can you explain what is meant by aggregate demand ($AD = C + I + G + (X - M)$)?	☐	☐	☐
Can you explain the determinants of each component of aggregate demand?	☐	☐	☐
Can you evaluate the relationship between changes in income and consumption?	☐	☐	☐
Can you evaluate how the accelerator theory explains the level of investment?	☐	☐	☐
Can you explain the relationship between aggregate demand and the price level?	☐	☐	☐
Can you explain why the aggregate demand curve may shift?	☐	☐	☐

Aggregate supply (AS)

Can you explain what is meant by aggregate supply?	☐	☐	☐
Can you distinguish between the Keynesian and neo-classical approaches to aggregate supply?	☐	☐	☐
Can you explain the relationship between aggregate supply and the price level in the short run and the long run?	☐	☐	☐
Can you explain why the aggregate supply curve may shift in the short run and the long run?	☐	☐	☐

AD/AS and macroeconomic equilibrium

Can you complete, understand and interpret AD/AS diagrams?	☐	☐	☐
Can you explain the assumptions underlying the AD/AS model?	☐	☐	☐
Can you use the AD/AS model and data to explain why supply-side and/or demand-side policies may be appropriate?	☐	☐	☐
Can you explain what is meant by macroeconomic equilibrium and how it might change?	☐	☐	☐
Can you evaluate, using AD/AS diagrams, how changes in AD and AS affect growth, unemployment and inflation?	☐	☐	☐

Can you evaluate the Keynesian, neo-classical and Austrian schools of thought on how the macroeconomy operates?



2.2b

Aggregate demand and aggregate supply: Phillips curve and the economic cycle

The Phillips curve

Can you explain the Phillips curve?



Can you explain the natural rate of unemployment?



Can you explain why the natural rate of unemployment is called the non-accelerating inflation rate of unemployment (NAIRU)?



Can you explain why the Phillips curve may be vertical in the long run, using theories such as adaptive expectations?



Can you evaluate whether the Phillips curve accurately describes the relationship between inflation (money wages) and unemployment?



Can you evaluate the usefulness of the Phillips curve to macroeconomic policymakers?



The economic cycle

Can you explain the different stages of the economic cycle?



Can you distinguish between actual and trend rates of growth?



Can you evaluate the factors that determine the trend rate of economic growth?



Can you explain the output gap using an economic cycle diagram, an AD/AS diagram and a PPF/C diagram?



Can you evaluate the causes of an output gap?



Can you evaluate the consequences of an output gap?



The multiplier and accelerator

Can you explain what is meant by the national income multiplier?



Can you explain the role and purpose of the multiplier?



Can you explain the factors that determine the size of the national income multiplier?



Can you calculate the size of the multiplier (e.g. $k = 1/MPW$)?



Can you explain the multiplier concept using the circular flow model?



Can you explain the impact of the multiplier in terms of shifts of the AD curve?



Can you explain the economic cycle using the multiplier-accelerator model?



2.3a

Policy instruments: fiscal policy

Government budget and taxation

Can you explain what is meant by the government budget?



Can you identify the main sources of tax revenue and government expenditure in the UK?



Can you explain and distinguish between current and capital government expenditure?



Can you explain and distinguish between progressive, proportional and regressive taxation?



Can you calculate average and marginal tax rates?



Can you explain and distinguish between direct and indirect taxation?



Can you explain the features of a good tax (canons of taxation)?



Can you evaluate the relationship between tax rates and tax revenue, including the Laffer curve?



Can you evaluate the advantages and disadvantages of a flat rate tax system?



Budget position and debt

Can you explain what is meant by the budget position or fiscal stance?



Can you explain and distinguish between a budget surplus, a budget deficit and a balanced budget?



Can you distinguish between the cyclical and structural budget positions?



Can you distinguish between the overall budget position and the budget position on current expenditure?



Can you distinguish between a budget deficit and government debt?



Can you explain how budget deficits can be financed?



Can you evaluate policies to correct a budget surplus or deficit?



Can you explain what is meant by the national debt?



Can you evaluate the consequences of government debt?



Using fiscal policy

Can you explain how automatic stabilisers work to achieve economic stability?



Can you explain how discretionary fiscal policy can improve macroeconomic performance?



Can you explain how crowding out and crowding in can result from fiscal policy?



Can you evaluate the effectiveness of fiscal policy in achieving macroeconomic objectives?



Can you explain how fiscal rules can influence the behaviour of economic agents?



Can you evaluate the effectiveness of fiscal rules?



2.3b

Policy instruments: monetary, supply side and policy conflicts

Monetary policy

Can you explain monetary policy instruments such as interest rates, money supply, quantitative easing and exchange rates?



Can you explain how these instruments can be used to influence macroeconomic variables?



Can you explain how monetary policy instruments affect macroeconomic performance (transmission mechanism)?



Can you explain what is meant by a liquidity trap?



Can you explain inflation rate targeting?



Can you explain how inflation targeting may affect the behaviour of economic agents?



Can you explain and distinguish between symmetric and asymmetric inflation targeting?



Can you evaluate the effectiveness of monetary policy in achieving macroeconomic objectives?



Can you explain how a central bank works to achieve its aims?



Supply side policy

Can you explain how education and training increase the quality or quantity of factors of production?



Can you explain how reforming tax and benefits and reducing marginal tax rates can act as supply side policies?



Can you explain the supply side role of National Minimum Wage legislation and promoting a living wage?



Can you explain how improving labour market flexibility, including in the housing market, and immigration affect aggregate supply?



Can you explain how privatisation, deregulation and trade union reform act as supply side policies?



Can you explain how infrastructure investment (including transport), R&D incentives and subsidies act as supply side policies?



Can you evaluate the effectiveness of supply side measures in achieving macroeconomic objectives?



Policy conflicts

Can you explain trade-offs between objectives such as unemployment and inflation, growth and inflation, inflation and the balance of payments, growth and the balance of payments, and growth and equality?



Can you evaluate the consequences of conflicts between policy objectives?



Can you evaluate the methods by which policy conflicts can be resolved or reduced?



Approaches to policy and macroeconomic context

Can you evaluate debates about the extent to which prices and wages are flexible?



Can you evaluate debates about the flexibility or elasticity of aggregate supply?



Can you evaluate debates about the role of expectations in the macroeconomy?



Can you explain how macroeconomic policy changed in response to the Great Depression?



Can you explain Keynesian demand management and its problems in the 1970s?



Can you explain the monetarist approach to policy in the 1980s?



Can you explain how policy changed in response to the 2007-08 financial crisis and its aftermath?



2.4a

The global context: globalisation, trade and the balance of payments

Globalisation

Can you explain what is meant by globalisation?



Can you explain the characteristics of globalisation?



Can you explain the causes of globalisation?



Can you evaluate the impact of globalisation on developed, emerging and developing economies?



Can you evaluate the impact of multinational corporations on the world economy?



Can you evaluate the impact of the performance of emerging economies on other economies?



International trade

Can you explain what is meant by international trade?



Can you explain and distinguish between absolute and comparative advantage?



Can you calculate opportunity cost ratios to show the gains from trade from absolute and comparative advantage?



Can you explain what is meant by the terms of trade?



Can you calculate the terms of trade?



Can you explain the determinants of the terms of trade, including Heckscher-Ohlin theory?



Can you explain how the pattern of global trade has changed over time?



Can you evaluate comparative advantage as an explanation of global trade patterns?



Can you explain how countries achieve international competitiveness through productivity, unit labour costs, exchange rates and product quality?



Can you evaluate the advantages and disadvantages of international trade and aid for developed, emerging and developing economies?



Balance of payments

Can you explain what is meant by the balance of payments?



Can you distinguish between the current, capital and financial accounts?



Can you explain the components of the current account: trade in goods, trade in services, primary income and secondary income (current transfers)?



Can you calculate balances on the components of the balance of payments?



Can you explain what is meant by balance of payments imbalances?



Can you explain why a sustainable balance of payments position is a macroeconomic policy objective?



Can you evaluate the causes of balance of payments imbalances?



Can you evaluate the consequences of balance of payments imbalances?



Can you evaluate policies (expenditure-switching and expenditure-reducing) to correct balance of payments imbalances?



Exchange rates

Can you explain what is meant by an exchange rate?	☐	☐	☐
Can you explain, with a diagram, how exchange rates are determined in fixed and floating systems?	☐	☐	☐
Can you explain bilateral, effective, nominal and real exchange rates?	☐	☐	☐
Can you explain trends in exchange rate data?	☐	☐	☐
Can you evaluate the causes of changes in exchange rates?	☐	☐	☐
Can you evaluate the consequences of changes in exchange rates?	☐	☐	☐
Can you explain what is meant by a hybrid (managed) exchange rate system, using current examples?	☐	☐	☐
Can you evaluate the merits and drawbacks of different exchange rate systems?	☐	☐	☐
Can you explain purchasing power parity (PPP) theory?	☐	☐	☐
Can you evaluate PPP theory?	☐	☐	☐
Can you explain why some countries manage their exchange rate to achieve international competitiveness?	☐	☐	☐
Can you explain the Marshall-Lerner condition and the J-curve effect?	☐	☐	☐
Can you evaluate the impact of exchange rate changes on international competitiveness?	☐	☐	☐
Can you evaluate the effectiveness of changing a currency's value in achieving macroeconomic objectives?	☐	☐	☐

Trade policies and negotiations

Can you explain the different methods of protectionism (tariffs, quotas, subsidies, non-tariff barriers)?	☐	☐	☐
Can you explain, with diagrams, the impact of tariffs and quotas?	☐	☐	☐
Can you evaluate the effectiveness of the different methods of protectionism?	☐	☐	☐
Can you evaluate the case for and against protectionism?	☐	☐	☐
Can you evaluate the case for and against free trade?	☐	☐	☐
Can you evaluate the effectiveness of government policies to achieve international competitiveness?	☐	☐	☐
Can you explain, with examples, the stages of economic integration: free trade areas, customs unions, monetary unions and economic unions?	☐	☐	☐

Can you evaluate the internal and external consequences of economic integration, using diagrams of trade creation and trade diversion?



Can you evaluate the advantages and disadvantages of EU membership and how these differ between member states?



Can you evaluate the role of the WTO in promoting free trade?



Can you evaluate the progress made and difficulties faced by the WTO, such as agricultural disputes and trade agreements?



2.5a

The financial sector: money, markets and development

The role of the financial sector in the real economy

Can you explain the functions of money?



Can you explain the characteristics of money?



Can you explain what is meant by the money supply?



Can you distinguish between narrow and broad money in terms of liquidity?



Can you explain how banks create money, in theory and in practice?



Can you explain, with diagrams, how the interest rate is determined using liquidity preference theory and loanable funds theory?



Can you explain the relationship between the inflation rate and the nominal interest rate?



Can you explain the relationship between the money supply and the price level using the Fisher equation of exchange ($MV = PT$)?



Can you evaluate the relevance of the quantity theory of money?



Can you explain the impact on the macroeconomy of retail, commercial and investment banks, pension, hedge and insurance funds, and the stock, bond and foreign exchange markets?



Can you explain the role of inter-bank lending in the modern economy?



Can you explain the different forms of borrowing: mortgages, unsecured loans, overdrafts, credit cards and payday lending?



Can you explain why interest rates vary across money markets, using the concepts of risk and security?



Can you evaluate the role of the financial sector in the real economy?



The financial sector in developing and emerging economies

Can you explain the role of the financial sector in promoting development in developing and emerging economies?	☐ ☐ ☐
Can you explain the role of saving and investment in promoting development, using the Harrod-Domar model?	☐ ☐ ☐
Can you explain what is meant by microfinance?	☐ ☐ ☐
Can you evaluate the role of microfinance in supporting economic development?	☐ ☐ ☐
Can you evaluate the extent to which international financial markets have influenced flows of financial capital into and out of developing and emerging economies?	☐ ☐ ☐
Can you evaluate the impact of public and private sector debt on developing and emerging economies?	☐ ☐ ☐
Can you evaluate the role of the financial sector in promoting development in developing and emerging economies?	☐ ☐ ☐
Can you explain what is meant by remittances?	☐ ☐ ☐
Can you evaluate the impact and importance of remittances to economies?	☐ ☐ ☐

2.5b

The financial sector: central banks and regulation

The role of the central bank

Can you explain the functions of a central bank?	☐ ☐ ☐
Can you explain how an independent central bank differs from a central bank under government control?	☐ ☐ ☐
Can you explain the policy measures available to a central bank to achieve its primary and secondary objectives?	☐ ☐ ☐
Can you evaluate the effectiveness of these policy measures in achieving a central bank's objectives?	☐ ☐ ☐
Can you evaluate the advantages and disadvantages of a central bank targeting macroeconomic indicators, such as the Bank of England's inflation target?	☐ ☐ ☐
Can you evaluate the advantages and disadvantages of a central bank acting as lender of last resort?	☐ ☐ ☐
Can you evaluate the effectiveness of an independent central bank compared with a controlled central bank?	☐ ☐ ☐

Financial regulation

Can you explain why financial institutions are regulated?	☐ ☐ ☐
Can you explain the disadvantages of under-regulating financial institutions?	☐ ☐ ☐

Can you explain how financial institutions can be regulated?



Can you explain how changes in regulation may contribute to financial crises, such as the 2007-08 crisis?



Can you explain the benefits of increased regulation of financial institutions?



Can you evaluate the importance of regulating financial institutions within an economy?



Can you evaluate the role of the IMF and the World Bank in regulating the global financial system?

